

INFORMATION FROM BUD KROGH (RTO WEST) SENT TO RTO WEST
REGIONAL REPRESENTATIVES GROUP (RRG) FOR MEETING IN PORTLAND
ON OCTOBER 3

Hello, Everyone -

Last Wednesday, September 18, the Federal Energy Regulatory Commission (FERC) unanimously approved major aspects of the RTO West Stage 2 proposal that had been filed with FERC on March 29, 2002. The RTO West Filing Utilities are encouraged by the order and pleased that in FERC's view the proposal, with certain modifications and additional details, will not only satisfy FERC's requirements for an RTO, but can serve as a basic framework for the development of a western market. The scope of FERC's approval of the proposals in RTO West's Stage 2 filing is broad and encouraging.

A Quick Summary

FERC's order indicated approval for:

- * the RTO West governance proposal as modified in the Stage 2 filing;
- * the license plate pricing proposal, including the length of the transition period;
- * the congestion management proposal (with some modifications) reflecting the use of locational pricing and financial options to hedge congestion charges;
- * the use of catalogued transmission rights with voluntary contract conversion;
- * the planning and expansion proposal with some modifications;
- * the framework for interregional coordination and seams resolution in the Western Interconnection through the Seams Steering Group - Western Interconnection (SSG-WI); and
- * the market monitoring proposal with certain modifications for RTO West.

FERC decided some but deferred other issues. Among the most significant, FERC:

- * rejected the provision that the Transmission Operating Agreement (TOA) would automatically govern in a conflict between the TOA and the RTO West Tariff and deferred addressing most of the provisions in the proposed TOA

until the RTO West tariff is filed;

- * directed RTO West to submit a compliance filing within 120 days of the order that would include an RTO West Tariff, including an ancillary services plan and a list of and reasons for the facilities to be included in RTO West for operations, pricing, interconnection and planning. Once FERC has received the list of facilities, it would consider whether to hold additional stakeholder or technical conferences to resolve remaining issues;

- * directed some modifications to the proposal for tariff administration and design, and required the Filing Utilities through a stakeholder process to develop standards for interconnection for RTO West as a whole;

- * determined that on the issue of limiting liability, the filing utilities may propose provisions when the tariff is filed in 120 days; and

- * noted that on the benefits and costs of RTO West the study undertaken by Tabors, Caramanis & Associates concluded that the quantitative and qualitative benefits could outweigh the economic and social costs. FERC confirmed its commitment to address the cost benefit issue when it renders a final decision on RTO West.

The Filing Utilities believe that the positive results in the RTO West order are attributable to at least four critical factors. They include (1) FERC's acceptance of the need for regional flexibility, (2) the intensive collaborative process to develop the RTO West filing among all regional stakeholders, (3) the involvement of the Northwest Congressional delegation in the on-going development of RTO West, and (4) FERC's clearly stated policy that the RTO West order would drive the development of further details on congestion management, scheduling protocols, facilities, and cataloguing of transmission rights.

(1) FERC Accepts Need for Northwest Regional Flexibility

A central condition in the Stage 2 filing was the need for regional flexibility in any order that FERC would issue. In its order on page 2, FERC expressly acknowledged this condition. It stated that further details of RTO West development must "consider existing contractual relationships among parties and the operating characteristics of extensive hydroelectric generating resources in the Northwest, whose operation is coordinated through international treaty and other agreements, and with the operation of thermal and nuclear resources in the region." Such clear acceptance by FERC of the need to consider existing contracts and the unique characteristics of the Northwest system reduces the risk that standard market design elements that don't fit our regional needs will be imposed on the Northwest.

(2) FERC Acknowledges and Directs Continued Collaborative Public Process

FERC explicitly noted that the Stage 2 filing proposal was "the result of a lengthy and intensive discussion and negotiation among all stakeholders in the Northwest." In addition, FERC directed that future development of the details and remaining aspects of RTO West operations be done in discussions among stakeholders through the RRG process and technical conferences that FERC staff would arrange. While it is satisfying to receive this direction from FERC, the Filing Utilities have never deviated in their commitment to seek consensus on RTO West development issues through the RRG collaborative process and technical work groups. The Filing Utilities remain dedicated to on-going RTO West development discussions with state regulators and state energy advisers throughout the region, the Western Governors Association, the Committee on Regional Electric Power Cooperation, and the Northwest Congressional Delegation. Through an expansive SSG-WI process, RTO West representatives will also be working closely with colleagues representing the California Independent System Operator and Westconnect to further the Western Market Vision and to resolve seams issues in the Western Interconnection.

(3) Involvement of the Northwest Congressional Delegation in RTO West Development

Over the past two years, members of the Northwest Congressional delegation have committed substantial time and staff resources to closely tracking the development of RTO West. In letters to FERC and the Department of Energy, the delegation emphasized that any RTO West order must be responsive to the unique circumstances of the Northwest region. In our view this strong message was extremely important in gaining FERC acceptance of this fundamental condition. Numerous hearings and staff briefings have been held, and more are anticipated in the future.

(4) RTO West Order To Drive Further RTO West Development

FERC noted that it would look at the RTO West filing as "both informing and being informed by the proposed [SMD] rule." Such a strong endorsement of the RTO West proposal by the Commissioners suggests that the RTO West order will not only drive further work on RTO West but also be useful in further development of the Standard Market Design (SMD) model. During the September 18 meeting, Commissioner Brownell noted that the SMD is a proposal, while the RTO West order directs specific action from the issuance date forward. Future development work on RTO West, through the regional collaborative process and with continued deference to regional needs, should help shape SMD development in ways that can help RTO West.

The Filing Utilities are continuing to review the RTO West order and will be preparing specific proposals for re-engaging regional stakeholders in the collaborative process. Specifically, a proposed plan for follow-up steps is being developed that will be presented for discussion at the RRG meeting on October 3. In addition, the Filing Utilities are anticipating a meeting in early October with the Northwest Congressional delegation and staff to review the RTO West order and to seek advice on the the next development steps.